

Message Text

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EB/IFD/OMA: C H ERVIN

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TREASURY: R MUNK

TREASURY: D WOLKOW

TREASURY: H YOUNG

TREASURY: M SEARING

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FM SECSTATE WASHDC

TO AMEMBASSY BUDAPEST

C O N F I D E N T I A L STATE 290452

E.O. 11652: N/A

TAGS: EFIN, HU

SUBJECT: WORLD WAR I FLOUR DEBT

REF: BUDAPEST 3792

1. SUMMARY. YOU ARE REQUESTED TO RESUME DISCUSSIONS WITH THE GOH ON WORLD WAR I RELIEF CREDIT. POINTS TO BE COVERED IN THESE DISCUSSIONS ARE: 1) USG MAINTAINS ITS POSITION THAT THE GOH DOES HAVE A LEGAL OBLIGATION TO PAY INTEREST ACCRUED TO DATE ON INDEBTEDNESS INCURRED PURSUANT TO THE 1924 AND 1932 AGREEMENTS. 2) ASSUMING SATISFACTORY RESOLUTION OF THIS POINT, THE USG WOULD AGREE TO: (A) HAVING THE SECURITY AND EXCHANGE COMMISSION, UPON PAYMENT OF ALL ARREARAGES BY THE GOH, ISSUE A PUBLIC NOTIFICATION RESCINDING SEC RELEASE 10610 RELATING TO JOHNSON ACT RESTRICTED
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TIONS; (B) RETURNING THE "PIECES OF PAPER" TO THE GOH UPON

PAYMENT OF THE INDEBTEDNESS EVIDENCED THEREBY; AND (C) EXCHANGING DIPLOMATIC NOTES CONTAINING SPECIFICS OF AGREEMENT REACHED. USG BELIEVES ARRANGEMENT TO REINSTATE CANCELLED FORINT ACCOUNTS IN PARALLEL WITH RESOLUTION OF WW I RELIEF CREDIT ISSUE WOULD BE HIGHLY SATISFACTORY. WE HOPE THAT THESE TWO QUESTIONS CAN BE RESOLVED BEFORE DECEMBER 15. END SUMMARY.

2. IT IS THE POSITION OF THE USG THAT THE FUNDING AGREEMENT OF APRIL 25, 1924 DOES PROVIDE FOR THE IMPOSITION OF INTEREST ON OVERDUE INSTALLMENTS OF PRINCIPAL. SPECIFICALLY, ARTICLE 3 OF THAT AGREEMENT STATES, QUOTE. PAYMENT OF INTEREST.- ALL BONDS ISSUED OR TO BE ISSUED HEREUNDER SHALL BEAR INTEREST, PAYABLE SEMI-ANNUALLY ON JUNE 15 AND DECEMBER 15 IN EACH YEAR, AT THE RATE OF 3 PER CENT PER ANNUM FROM DECEMBER 15, 1923, TO DECEMBER 15, 1933, AND THEREAFTER AT THE RATE OF 3 1/2 PER CENT PER ANNUM UNTIL THE PRINCIPAL THEREOF SHALL HAVE BEEN PAID. END QUOTE.

THUS, INTEREST IS ACCRUED ON THE PRINCIPAL AMOUNT OF BONDS UNTIL THE PRINCIPAL IS ACTUALLY REPAID. THE BONDS DO NOT CEASE ACCRUING INTEREST ON THEIR DATES OF MATURITY UNLESS THEY HAVE BEEN REPAID IN FULL BY THAT TIME.

MOREOVER, PARAGRAPH 1 OF THE MORATORIUM AGREEMENT OF 1932 PROVIDES THAT THE ANNUITIES SUBSTITUTED FOR THE FISCAL YEAR 1932 BOND PAYMENT OF PRINCIPAL AND INTEREST IN THE AMOUNT OF \$69,342.75 BEAR INTEREST AT A PER ANNUM RATE OF 4 . PARAGRAPH 2 OF THE MORATORIUM AGREEMENT STATES THAT, QUOTE "EXCEPT SO FAR AS OTHERWISE EXPRESSLY PROVIDED IN THIS AGREEMENT, PAYMENT OF ANNUITIES UNDER THIS AGREEMENT SHALL BE SUBJECT TO THE SAME TERMS AND CONDITIONS AS PAYMENTS UNDER THE AGREEMENT OF APRIL 25, 1924." UNQUOTE. SINCE THE MORATORIUM AGREEMENT IS SILENT ON WHETHER THE ANNUITIES CONTINUE TO BEAR INTEREST AFTER THEIR DATE OF MATURITY, THE ABOVE-QUOTED LANGUAGE FROM ARTICLE 3 OF THE 1924 AGREEMENT CONTROLS, AND THE ANNUITIES CONTINUE TO ACCRUE INTEREST UNTIL PAID AT THE RATE OF 4 PER ANNUM.

3. YOU SHOULD REMIND THE GOH THAT TO ACCEPT LESS THAN
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FULL PAYMENT OF PRINCIPAL AND INTEREST AS FULFILLMENT OF GOH OBLIGATIONS UNDER THE 1924 AND 1932 AGREEMENTS WOULD REQUIRE APPROVAL OF THE US CONGRESS. WE HAVE BEEN OVER THIS GROUND WITH THE GOH IN THE PAST. WE BELIEVE THAT THEY UNDERSTAND THAT WE WOULD NOT WISH TO REQUEST CONGRESSIONAL CONSIDERATION OF DEBT RESCHEDULING IN THIS CASE. IN THIS CONTEXT, IT IS WORTH RECALLING SECTION 5 OF THE JOINT RESOLUTION OF CONGRESS AUTHORIZING THE HOOVER MORATORIUM.

QUOTE. IT IS HEREBY EXPRESSLY DECLARED TO BE AGAINST THE POLICY OF CONGRESS THAT ANY OF THE INDEBTEDNESS OF FOREIGN COUNTRIES TO THE UNITED STATES SHOULD BE IN ANY MANNER CANCELLED OR REDUCED; AND NOTHING IN THIS JOINT RESOLUTION SHALL BE CONSTRUED AS INDICATING A CONTRARY POLICY, OR AS IMPLYING THAT FAVORABLE CONSIDERATION WILL BE GIVEN AT ANY TIME TO A CHANGE IN THE POLICY HEREBY DECLARED. END QUOTE.

4. IN ADDITION, PRESIDENT ROOSEVELT'S MESSAGE TO CONGRESS OF MARCH 28, 1938 REQUESTING CONGRESSIONAL APPROVAL OF THE DEBT RESCHEDULING PROPOSED BY THE GOH IN ITS AIDE MEMOIRE OF FEBRUARY 7, 1938, NOTED THAT, QUOTE. NO READJUSTMENT OF THE TERMS OF PAYMENT OF THE HUNGARIAN INDEBTEDNESS TO THE UNITED STATES CAN BE MADE EXCEPT PURSUANT TO ACT OF CONGRESS. END QUOTE.

5. AS OF DECEMBER 15, 1976, THE U.S. TREASURY DEPARTMENT RECORDS REFLECT THAT THE DEBT DUE THE USG FROM THE GOH PURSUANT TO THE AGREEMENTS DATED APRIL 25, 1924 AND MAY 27, 1932 IS \$4,327,271.44. THIS AMOUNT REPRESENTS \$56,235.00 OF PRINCIPAL AND \$33,185.06 OF INTEREST DUE 12/15/76, TOGETHER WITH PAST DUE PRINCIPAL OF \$1,300,457.75 AND PAST DUE INTEREST OF \$2,937,393.63. THE UNMATURED PRINCIPAL DUE 12/15/77 THROUGH 12/15/85 IS \$608,940.00. TREASURY WORKSHEETS WHICH SUPPORT THESE CALCULATIONS ARE BEING POUCHED TO EMBASSY. THESE WORKSHEETS SUPERCEDE THOSE PROVIDED EMBASSY IN JANUARY. (F.Y.I. SINCE RECEIPT OF REFTEL, TREASURY REVIEWED AND MADE SLIGHT REVISIONS TO THE SCHEDULE PREVIOUSLY SENT.) END FYI

6. AS INDICATED IN OUR INTERIM REPLY, STATE 280215, THE OTHER ISSUES RAISED BY THE HUNGARIANS DO NOT SEEM DIFFICULT
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AND SHOULD BE RESOLVABLE ALONG THE LINES SUGGESTED BY GOH AND YOU IN REFTEL. THE SEC HAS AGREED THAT, UPON APPROPRIATE NOTIFICATION THAT THE GOH HAS PAID ALL ARREARAGES, THE SEC WILL PUBLISH A NOTICE RESCINDING SEC RELEASE 10610, DATED JANUARY 22, 1974, RELATING TO APPLICABILITY OF JOHNSON ACT RESTRICTIONS TO HUNGARY. ASSURANCES THAT SUCH NOTIFICATION WOULD BE FORTHCOMING UPON RECEIPT OF FULL PAYMENT OF PRINCIPAL AND INTEREST CURRENTLY DUE AND IN ARREARS COULD BE PROVIDED IN AN EXCHANGE OF NOTES WHICH ALSO SET FORTH THE AMOUNT DUE AS OF DECEMBER 15, 1976, AND AMOUNTS DUE UNTIL 1985. TREASURY HAS IN ITS POSSESSION THE BONDS WHICH WERE ISSUED PURSUANT TO THE 1924 AGREEMENT, (EXCEPT BONDS NUMBERED 1 THROUGH 7 WHICH WERE REPAYED ON SCHEDULE PRIOR TO 1931), AND WILL RETURN TO THE GOH THOSE BONDS MATURING ON OR PRIOR TO DECEMBER 15, 1976 PURSUANT

TO THE 1924 AND 1932 AGREEMENTS. THE REMAINING BONDS WILL BE RETURNED TO THE GOH ON THEIR RESPECTIVE DATES OF MATURITY, UPON PAYMENT BY THE GOH OF THE PRINCIPAL AMOUNT THEREOF AND ALL ACCRUED INTEREST.

7. FINALLY, YOU SHOULD EXPRESS PLEASURE THAT THE GOH WOULD REINSTATE THE CANCELLED FORINT ACCOUNTS AT THE TIME THAT THE WWI FLOUR DEBT IS SETTLED.

8. TOM GERTH IS HAND-CARRYING COPIES OF TREASURY CALCULATIONS. ROBINSON

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Message Attributes

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